

## Message Text

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ACTION EB-07

INFO OCT-01 ISO-00 AF-10 ARA-10 EA-07 EUR-12 NEA-10  
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O R 241302Z JUN 77  
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TO SECSTATE WASHDC IMMEDIATE 5495  
INFO AMEMBASSY LA PAZ  
AMEMBASSY JAKARTA  
AMEMBASSY LAGOS  
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AMEMBASSY OTTAWA  
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FOR: EB/ISM - A. C. HEWITT  
E.O. 11652: N/A  
TAGS: EMIN, ITC, ETRD  
SUBJECT: TIN -- INTERNATIONAL TIN COUNCIL:MEETING OF THE  
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ECONOMIC AND PRICE REVIEW PANEL

1. SUMMARY. THE INTERNATIONAL TIN COUNCIL'S (ITC)  
ECONOMIC AND PRICE REVIEW PANEL HELD TWO MEETINGS IN  
JUNE AND CONCLUDED THAT THE PRESENT ITC FLOOR AND  
CEILING PRICES ARE NOT APPROPRIATE TO PRESENT CONDITIONS  
IN THE TIN INDUSTRY, BUT LEFT IT UP TO THE COUNCIL AT

ITS JULY SESSION TO DETERMINE WHAT IF ANYTHING SHOULD BE DONE TO ADJUST THEM.

2. INTRODUCTION. AT ITS LAST QUARTERLY MEETING IN MARCH, THE INTERNATIONAL TIN COUNCIL ESTABLISHED AN ECONOMIC AND PRICE REVIEW PANEL (EPRP) TO PROVIDE THE COUNCIL AND ITS MEMBERS WITH A MORE SYSTEMATIC AND PROFESSIONAL ASSESSMENT OF THE TIN INDUSTRY AND ITS FINDINGS AND CONCLUSION RELATIVE TO THE APPROPRIATENESS OF THE ITC FLOOR AND CEILING PRICES. THE EPRP WAS FORMED AT THE REQUEST OF THE BOLIVIAN GOVERNMENT, WHO HAD NOT THEN RATIFIED THE TIN AGREEMENT, AND SEVERAL PRODUCERS AND CONSUMERS WHO FELT THAT MORE PROFESSIONAL ANALYSIS OF TIN PRICE AND RELATED ISSUES WOULD SERVE TO DEPOLITICISE THE QUESTION OF FLOOR AND CEILING PRICE ADJUSTMENT WITHIN THE COUNCIL.

3. THE EPRP HAD ITS FIRST MEETING JUNE 8-10 TO CONDUCT ITS ANALYSIS OF THE CURRENT STATE OF THE INDUSTRY. AT THAT MEETING THE EPRP CONCLUDED THAT 1) THERE IS A PERSISTENT GAP BETWEEN TIN PRODUCTION AND DEMAND WHICH COULD LEAD TO A SUBSTANTIAL TIN SHORTAGE IN 1977 WITH CONTINUED HIGH PRICES FOR TIN METAL; 2) TIN PRODUCTION COSTS ARE RISING AS IS THE COST OF NEW INVESTMENT IN THE INDUSTRY; 3) PRODUCER TAX AND OTHER DOMESTIC POLICIES HAVE IMPEDED INCREASED PRODUCTION AND HAVE LIMITED OFFICIAL USE

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CONTRIBUTED TO CURRENT HIGH PRICES; 4) A LARGER, BETTER MANAGED BUFFER STOCK WILL RESULT IN LESS RELIANCE ON EXPORT CONTROLS WHICH HAVE HAD A DAMPENING EFFECT ON INVESTMENT.

4. DURING THE FINAL PHASE (JUNE 20-23) OF THE EPRP'S DELIBERATIONS, CONSUMERS WERE REPRESENTED ON THE PANEL BY THE U.S., BELGIUM, FRG AND THE USSR, WITH JAPAN, FRANCE, THE NETHERLANDS AND THE U.K. SENDING OBSERVERS. IN FACT, THERE WAS LITTLE DISTINCTION BETWEEN CONSUMER PANEL MEMBERS AND OBSERVERS SINCE OBSERVERS, PARTICULARLY FRANCE AND THE U.K., WERE MORE ACTIVE IN THE PROCEEDINGS THAN WERE EITHER BELGIUM OR THE USSR. WHILE MOST CONSUMER DELEGATIONS PRIVATELY CONCEDED THAT THE FLOOR AND CEILING PRICES WOULD UNDOUBTEDLY BE INCREASED IN JULY, CONSUMERS DIFFERED ON HOW THE EPRP SHOULD HANDLE ITS RESPONSIBILITY TO SUBMIT FINDINGS ON THE APPROPRIATENESS OF THE PRICE RANGE. THE FRG, USSR AND THE U.S. FAVORED HAVING THE EPRP CONFINE ITSELF TO PROVIDING COUNCIL WITH AN ASSESSMENT OF THE TIN INDUSTRY, LEAVING IT UP TO THE COUNCIL TO DETERMINE WHAT ACTION SHOULD BE TAKEN. FRANCE, THE U.K. AND JAPAN

FAVORED A GENERAL RECOMMENDATION TO COUNCIL THAT THE PRESENT PRICE RANGE IS INADEQUATE, BUT LEAVING IT TO COUNCIL TO DECIDE HOW THE FLOOR AND CEILING PRICES SHOULD BE ADJUSTED. BELGIUM AND THE NETHERLANDS FAVORED RECOMMENDING A SPECIFIC PRICE INCREASE TO COUNCIL, WITH BELGIUM OPTING FOR A FLOOR OF M\$1'300 AND A CEILING OF M\$1,600.

5. FROM THE OUTSET, PRODUCERS WERE INTENT ON RECOMMENDING A SPECIFIC PRICE INCREASE, WITH INDONESIA, THAILAND,

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INFO OCT-01 AF-10 ARA-10 EA-07 EUR-12 NEA-10 IO-13  
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/104 W

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O R 241302Z JUN 77  
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TO SECSTATE WASHDC IMMEDIATE 5496  
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IUEHBAC/AMEMBASSY CANBERRA 1693  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY OTTAWA  
USMISSION GENEVA  
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AUSTRALIA AND MALAYSIA (AS OBSERVER) WANTING A M\$1,300 FLOOR AND M\$1,600 CEILING AND BOLIVIA OPTING FOR A M\$ 1,400 - 1,500 FLOOR AND A M\$1,700 - 1,800 CEILING.

6. DEBATE ON THE QUESTION OF FINDINGS AND CONCLUSIONS  
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WAS EXTENSIVE, BUT REMAINED FROZEN ALONG THE ABOVE LINES WELL INTO THE THIRD DAY OF THE SECOND MEETING. AT THIS POINT, ITC EXECUTIVE CHAIRMAN, PETER LAI, ANNOUNCED THAT UNLESS THE EPRP REACHED SUBSTANTIAL AGREEMENT ON SOME FORM OF FINDINGS, HE WOULD RECOMMEND TO COUNCIL IN JULY THAT THE EPRP BE DISBANDED. AT THE SAME TIME, FRANCE, WITH BELGIUM AND NETHERLANDS' SUPPORT, ADVISED THAT UNLESS CONSUMERS WERE PREPARED TO REACH A COMPROMISE WITH PRODUCERS, IT UNILATERALLY WOULD TABLE A PROPOSAL FOR A M\$1,175 TO M\$1,200 FLOOR AND A M\$1,500 CEILING. BASED ON THESE DEVELOPMENTS, THE U.S. DEL MADE ONE FINAL ATTEMPT TO OBTAIN A CONSENSUS FOR SUBMITTING AN ASSESSMENT WITHOUT FINDINGS AND CONCLUSIONS. FAILING IN THAT, THE U.S. JOINED FRANCE, THE U.K., JAPAN, NETHERLANDS AND BELGIUM IN SUPPORT OF A GENERAL FINDING THAT THE PRESENT FLOOR AND CEILING PRICE IS INADEQUATE, BUT LEAVING IT TO COUNCIL TO DETERMINE HOW MUCH IT SHOULD BE ADJUSTED.

7. ON THIS BASIS, CONSUMERS WERE ABLE TO CONVINCE PRODUCERS TO DROP THEIR DEMAND FOR A SPECIFIC RECOMMENDATION AND, AFTER A FUTILE ATTEMPT BY BOLIVIA TO INCLUDE IN THE FINDINGS A PROVISION THAT COUNCIL IN JULY MAKE ITS PRICE DECISION ON THE BASIS OF A LOOSE FORM OF INDEXATION, THE PANEL, EXCEPTING THE USSR AND FRG WHO RESERVED (BUT DID NOT OPPOSE), AGREED ON THE FOLLOWING FINDINGS:

"FINDINGS AND CONCLUSIONS.

105. THE REPORTS OF VARIOUS COMMITTEES OF THE COUNCIL AND THE BUFFER STOCK MANAGER HAVE ENABLED THE PANEL TO CONDUCT AN ORDERLY ANALYSIS OF THE ABUNDANT INFORMATION RETURNED IN ACCORDANCE WITH COUNCIL RESOLUTION NO. 46 OF 29 MARCH 1977, SETTING OUT THE TERMS OF REFERENCE OF THE  
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PANEL. THE SUMMARY OF THIS ANALYSIS, WHICH IS CONTAINED IN THIS DOCUMENT, IS CLEAR AND SUFFICIENT TO ENABLE THE PANEL TO REACH THE FOLLOWING FINDINGS AND CONCLUSIONS:

(A) THE PANEL CONCLUDES THAT THE PRICE RANGE CURRENTLY IN FORCE IS INADEQUATE, HAVING REGARD TO THE PRODUCTION COSTS OF MANY EXISTING MINING OPERATIONS AND THE NEED TO ATTRACT NEW INVESTMENT IN THE SHORT- AND MEDIUM-TERM.

(B) THE PANEL CONCLUDES THAT IN ORDER TO DETERMINE APPROPRIATE FLOOR AND CEILING PRICES AT ITS SESSION IN JULY 1977, THE COUNCIL SHOULD GIVE FULL CONSIDERATION TO:

(I) THE INCREASE IN PRODUCTION COSTS, PARTICULARLY AMONG THE HIGHER COST PRODUCERS, AS EVIDENCED BY THE FACT THAT THE WEIGHTED AVERAGE PRODUCTION COST FOR APPROXIMATELY ONE-HALF OF WORLD PRODUCTION OF TIN METAL IN THE SECOND HALF OF 1976 IS M\$1,185 PER PIKUL;

(II) THE PRODUCTION COST DATA SUBMITTED BY PRODUCERS DOES NOT INCLUDE NORMAL RATES OF RETURN ON INVESTMENT;

(III) THE APPARENT PERSISTENT GAP BETWEEN PRODUCTION AND DEMAND;  
AND

(IV) THE CURRENT MARKET PRICE FOR TIN.

(C) THE PANEL, WHILE CONSCIOUS OF THE MEASURES ALREADY BEING TAKEN IN THE FIELD OF ON-GOING INVESTMENT, CONCLUDES THAT THE COUNCIL SHOULD, NEVERTHELESS, URGE ALL PRODUCING AND CONSUMING GOVERNMENTS TO TAKE ALL POSSIBLE STEPS TO ENCOURAGE FURTHER INVESTMENT IN THE TIN INDUSTRY. SUCH ENCOURAGEMENT MIGHT BE IN THE FORM OF, FOR EXAMPLE, MAKING NEW LAND AVAILABLE FOR EXPLORATION AND DEVELOPMENT, PROVIDING TAX AND OTHER INCENTIVES TO THE TIN INDUSTRY, AND BY INCREASING THE FLOW OF TECHNOLOGY AND EQUITY AND LOAN FUNDS TO THE INDUSTRY.

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(D) THE PANEL CONCLUDES THAT RELIANCE ON A LARGER BUFFER STOCK, SUPPLEMENTED BY BORROWINGS, SHOULD RESULT IN LESS RECOURSE TO EXPORT CONTROL.

(E) THE PANEL ALSO CONCLUDES THAT, FOR THE PURPOSE OF FUTURE REVISIONS OF FLOOR AND CEILING PRICES, THE PANEL'S JUDGMENT UPON THE APPROPRIATE LEVEL OF FLOOR AND CEILING PRICES BE BASED UPON THE SYSTEMATIC EVALUATION AND ASSESSMENT OF AVAILABLE DATA FOLLOWING THE PATTERN EMPLOYED THIS TIME.

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O R 241302Z JUN 77  
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8. NOTE: THE U.S. DEL RESERVED ON PARAGRAPH (B) (I) OF  
THE FINDINGS, NOTING THAT, WHILE TNE LANGUAGE WAS  
ACCEPTABLE TO THE U.S., SUCH ACCEPTANCE WAS NOT TO BE  
CONSTRUED AS U.S. EXPLICIT OR IMPLIED AGREEMENT TO ANY  
FORM OF INDEXATION BOARD ON WEIGHTED AVERAGE PRODUCTION  
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COSTS, AND THAT THE U.S. BELIEVES THE PANEL IS NOT  
BOUND TO RELY ON WEIGHT AVERAGE PRODUCTION COSTS AT ITS  
FUTURE MEETINGS.

9. COMMENT: THE RESULTS OF THE PANEL'S MAIDEN EFFORT WAS A MIXED BAG. CERTAINLY THE PANEL HAS MADE CONSIDERABLE PROGRESS IN THE REVIEW AND ANALYSIS OF THE TIN INDUSTRY, AND THE ASSESSMENT WHICH IT WILL SUBMIT TO COUNCIL REPRESENTS A CONSIDERABLE IMPROVEMENT OVER PREVIOUS SUBMISSIONS BY THE SECRETARIAT AND ITS COMMITTEES, WHICH SHOULD ENABLE THE COUNCIL TO MORE QUICKLY DETERMINE WHETHER THE FLOOR AND CEILING PRICES SHOULD BE ADJUSTED. HOWEVER, THE PANEL HAS BEEN NO BETTER THAN THE COUNCIL IN DE-POLITICISING ISSUES RELATING TO PRICE CONSIDERATION AND, IN THE END, WISELY CHOOSE TO CONFINE ITSELF TO GENERAL CONCLUSIONS SO AS TO NOT RESTRICT THE COUNCIL'S FREEDOM OF ACTION IN DETERMINING WHAT, IF ANY, ACTION IT SHOULD TAKE ON THE ADJUSTMENT OF FLOOR AND CEILING PRICES IN JULY. A NOTEWORTHY SUCCESS FOR CONSUMERS WAS PRODUCER ACCEPTANCE THAT ITC CONSIDERATION OF RESTRICTIVE PRODUCER TAX AND LICENSING PRACTICES IS NOT AN IMPINGEMENT ON PRODUCER SOVEREIGNTY. THE U.S. SUBMITTED A PAPER ON THE NEGATIVE PRICE AND PRODUCTION EFFECTS OF HIGH MARGINAL TAX RATES WITH PARTICULAR REFERENCE TO MALAYSIA AND BOLIVIA. ALL PRODUCERS CONCEDED THE EXISTENCE OF THE PROBLEM WITHOUT REFERENCE TO SOVEREIGNTY. BOTH MALAYSIA AND BOLIVIA STATED THAT THEIR GOVERNMENTS ARE NOW REVIEWING THEIR TAX SYSTEMS TO DETERMINE WHAT CAN BE DONE TO HELP THE INDUSTRY. THE THAI DELEGATE ASKED THAT THE U.S. PREPARE A SIMILAR STUDY ON THE THAI TAX SYSTEM FOR USE BY THE RTG IN ITS INTERNAL REVIEW OF TAX POLICY.

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## Message Attributes

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